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SUBJECT: FRANCE: MCC DISCUSSES DEVELOPMENT FINANCE

Summary

¶1. (SBU) Maureen Harrington, VP for Policy and International Relations, and Richard Morford, Managing Director for Donor and Multilateral Relations at the Millennium Challenge Corporation met with French development officials Friday, June 15. They discussed approaches to the private sector, aid effectiveness, MCC's mission and approach to aid, and potential upcoming Compacts this summer with Lesotho, Mozambique, and Morocco.

Proparco

¶2. (SBU) Ms. Harrington and Mr. Morford met with Luc Rigouzzo, CEO of Proparco, the private sector development finance arm of the French Development Agency (AFD). Rigouzzo described its structure (70% AFD, 30% private ownership) and noted its focus on sub-Saharan Africa, which accounts for 45% of its activities, with Africa as a whole accounting for about 60%. He said that Proparco works closely with several other development finance institutions from other European countries, including the Netherlands, Germany, and the European Investment Bank. Harrington and Morford expressed interest in Proparco's strategies to encourage more private sector investment and in some of the tools it uses to measure the development impact of its activities. Mr. Rigouzzo said that Proparco and MCC share the same agenda in Africa.

AFD

¶3. (SBU) Pierre Jacquet, Chief Economist at the AFD was joined by Aude Delescluse, desk officer for Morocco; Jacques Moineville, director for sub-Saharan Africa; Yves Des Rieux, regional desk officer for Iraq, Jordan, and the Palestinian Territories; and Christelle Josselin, multilateral banks liaison officer. Ms. Harrington and Mr. Morford presented the content of potential upcoming Compacts with Lesotho, Mozambique, and Morocco; Ms. Delescluse presented AFD's project in Morocco, which will total 150 (\$195) million annually from 2007-2009 (30 million of which is in non-sovereign loans).

¶4. (SBU) Mr. Moineville asked about MCC's policy on donor cooperation and pooling of funds. Mr. Jacquet pointed out that with the size of MCC's grants comes a significant structural effect which should encourage an active role in donor coordination for MCC. Ms. Harrington responded that MCC does emphasize country ownership of programs and country responsibility for donor coordination, however, MCC also works very closely with other donors to ensure coordination and policy consistency and definitely "thinks of itself as part of the donor family." She noted that congressionally-mandated requirements to tie grants to results make budget support

problematic and asked that AFD and other donors make an effort to keep MCC in the loop in the pre-Compact period before it has in-country staff.

¶ 15. (SBU) Mr. Jacquet asked whether MCC is required by law to work exclusively with grants, and wondered if loans might be appropriate in some cases. Ms. Harrington responded that MCC is looking for ways to better leverage its grants to encourage more private sector investment. Both MCC and AFD's programs in Mali were discussed briefly, and Mr. Moineville offered to share the information AFD has gathered from their long experience working with the Office du Niger. Moineville and Mr. Jacquet asked why MCC was not supporting cotton production in Burkina Faso, Benin, and Mali, where AFD was trying to put together with the World Bank a cotton price-adjustment mechanism (fond de lissage). Ms. Harrington responded that none of the mentioned countries included requests for cotton-related programs in the final drafts of their Compacts. All participants agreed that follow-up meetings would be beneficial, possibly around the fall World Bank/IMF meetings, including a workshop to focus on leverage and approaches to the private sector.

Ministry of Foreign Affairs

¶ 16. (SBU) At MFA Harrington and Morford met with Jean-Luc Le Bras Head of the Africa and Indian Ocean Bureau of the Development Directorate (DGCID), who was joined by Catherine Corm Kammoun, regional desk officer for southern Africa and the Great Lakes region, and Jean-Claude Kohler, whose geographical responsibility includes Mozambique. They discussed the Compacts scheduled to be signed with Lesotho and Mozambique, and Le Bras offered to provide the Ministry's framework agreements on development aid to these countries. Le Bras questioned the large number of donors already

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present in many countries MCC deals with and wondered if the MCC would ever consider Compacts with "aid orphans," such as the Central African Republic. Ms. Harrington clarified MCC's mission of "reducing poverty through growth" in better performing developing countries and noted that USAID has many missions, including helping countries such as the CAR.

¶ 17. (SBU) Asked about potential changes after the election of President Sarkozy, Mr. Le Bras responded that MFA Development would be maintained in its current form, and that Africa will continue to be its priority. He said that infrastructure improvement and the Millennium Development Goals were the focus of AFD; with MFA Development focused more on higher education and research. The Mediterranean basin is likely to become a more important focus, given that it is the gateway for sub-Saharan African migration to Europe. He noted that the MFA would continue to work toward its goal of dedicating .7% of GDP to ODA, and concluded that it was difficult to predict any further changes until the 2008 budget is passed in July and the new State Secretary for Development was named (Jean-Marie Bockel, the Socialist mayor and senator from Mulhouse, was nominated June 19, 2007).

OECD

¶ 18. (SBU) Ms. Harrington and Mr. Morford briefed Richard Manning, Chair of the Development Assistance Committee/Development Cooperation Directorate (DAC-DCD) and James Hradsky, Senior Policy Analyst with the DCD at the OECD on the status of likely upcoming Compacts with Lesotho, Mozambique, Morocco, and Tanzania. They discussed aid effectiveness and the growing impact of MCC's funding model on recipient countries. Noting that the UK and Netherlands are cutting staff while raising development outlays, Ms. Harrington said MCC too is looking to find less staff-intensive ways to distribute aid. Ms. Harrington described the "MCC effect": fourteen countries have set up commissions charged with improving their country's performance on MCC selection indicators, and the institutions who produce the indicators report "a flood of requests"

for information from candidate countries.

¶9. (SBU) Mr. Hradsky noted that the DAC peer review had questioned the 5-year time limit on MCC Compacts, and Ms. Harrington responded that MCC has approached Congress about the need for an extension of the time limit. Overall, however, the DAC peer review had been impressed with MCC's "refreshing" approach, and characterized it as moving in the direction the international donor community would like to go. Mr. Hradsky suggested that the DAC could be a useful asset as MCC's results were scrutinized and its mandate re-examined by Congress.

¶10. (U) This cable was cleared by MCC.